East Kent Services Committee

December 2023

Subject: **EKS service transition business case**

Director and Head of Service:

Chris Blundell - Director or Corporate services and section 151 officer

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Officer:

Jasvir Chohan - Interim EKS service transition manager

Cabinet Member:

[Insert name and title] [List of Cabinet Members available here]

Key or Non Key decision: Non Key

Decision Issues:

These matters are within the authority of the Cabinet.

Is any of the information exempt from publication:

No

CCC ward(s): All wards

Summary and purpose of the report:

This report provides a summary and appraisal of the options for the transition of services from the Civica contract to a suitable service delivery vehicle (SDV). The report recommends a LATCo (local authority trading company) approach as the preferred option with an analysis of the benefits and associated risks.

To Recommend

1. To recommend to each of the executives of Canterbury City Council, Dover District Council and Thanet District Council that each agrees-

   (a) To exit from the contract with Civica UK Limited for the delivery of the Revenue, Benefits and Customer Services.

   (b) To approve the LATCo service delivery vehicle as the preferred option for future service delivery.

   (c) To approve the business case for the LATco pursuant to Article 2(2)(b) of the Local Government (Best Value Authorities) Power to Trade) (England) Order 2009.

(d) To the extent that it is not other authorised to do so, to authorise the East Kent Services Committee, to exercise the powers and functions of the Council to form the LATco and to enter into the contract with it, (to include but not limited to); making decisions on behalf of the Council in relation to:-

(i) Establishing the LATco and enter into any associated shareholders agreements.

(ii) Appointing officers to the LATco.

(iii) Subscribing for shares in the LATco.

(iv) Advancing money by way of loan capital to the LATco to finance its capital requirements.

(v) Entering into a contract with LATco for the delivery of the Revenue, Benefits and Customer Services on behalf of each of the councils.

(vi) Managing the contract.

(vii) Renegotiating the contract.

(viii) Varying the contract.

(ix) Assigning the contract.

(x) Novating the contract.

(xi) Terminating the contract.

(xii) Enforcing the contract.

(xiii) The doing of anything in relation to the exercise of the powers and functions under Part II of the Deregulation and Contracting Out Act 1994 and the orders and regulations made under it.

(xiv) Authorising entry into contracts* with third parties in relation to any functions of the Council which are not the Revenues, Benefits and Customer Services Functions but which can usefully be entered into in connection with or in order to facilitate contracts entered into, or to be entered into with regard to the Revenues, Benefits and Customer Service Functions.

*the contracts shall be entered into in accordance with each local authority's respective Contract Standing Orders.

(xv) Anything which is calculated to facilitate, or is conducive or incidental to or otherwise expedient to (i) to (xv) above.

(2) That a report be considered by EKSC on final contract terms and, if approved, authorisation of entry into the contract and associated documentation.

Next stage in process:

The report will be presented to the individual cabinets for approval.

1. Introduction

In 2011, Canterbury, Dover and Thanet councils formed a Shared Service vehicle - 'EK Services', through which Revenues, Benefits, Customer Services, and ICT functions were delivered on behalf of the three authorities.

In 2017, Canterbury, Dover and Thanet councils made a joint decision to outsource the Revenues, Benefits and Customer Services functions to Civica. The decision to outsource was based on the financial challenges facing the partner councils and the lack of additional savings EK services could deliver.

Since 2018 the service has been delivered by Civica. To date the services provided by the senior management team and its staff have delivered a successful service with customer satisfaction scores regularly above 96%.

In 2021 Civica informed the Councils that it was strategically exiting the BPO (business process outsourcing) market and that the initial contract would not be extended beyond January 2025. However, Civica has requested to return the service early, as they would like to focus on their software business. Given the change in strategic direction of Civica, the East Kent Strategic Board (EKS) agreed to the principle of returning the service early.

In October 2022 , an outline business case was developed and subsequently approved by the EKS board, and the go ahead given for a full business case to be developed along with an appraisal of several suitable options.

This report outlines the range of options appraised within the business case, the benefits and risks of these options and the cost of delivery. The report recommends the option that delivers the most value for money, aligns with the current successful commercial model and provides a range of benefits.

The purpose of this report is for the EKS committee to approve the transition of outsourced services to a LATCO service delivery vehicle.

The following table summarises the estimated net impact to the partnership, with the LATCo SDV generating savings from year 1. No additional costs will be incurred by the partnership for either SDV model.

	Transition year	Year 1	Year 2	Year 3	Year 4	Year 5
LATCo	**(-73,020)**	**(-250,827)**	**(-304,668)**	**(-375,227)**	**(-448,056)**	**(-543,338)**
Shared services	**186,054**	**44,635**	**7,192**	**(-46,748)**	**(-117,930)**	**(-211,627)**

2. Options available

2.1 The outline business case considered a range of available options;

- Shared services
- LATCo – local authority trading company
- Disaggregation of services

- Alternative outsourcing company
- Do nothing

Of the five options available two were discounted early in the process. In 2021 the EKS board was presented with an outline business case of the options available. Disaggregation provides greater local control of services when brought back in house. However the disaggregation option was discounted due to the cost implications, increased IT, management and staffing costs and complexity of disaggregation.

2.1.1 The costs of disaggregation identified an increase in operating costs of approximately £4 million. The detailed costs are presented in appendix 5 of the business case. Each council would have to separate the service and transition to the individual council, which would have required separate additional management structures and separation of infrastructure and data. All of which would have added additional operating costs and loss of economies of scale.

2.1.2 There are significant risks of doing nothing, these would include an unplanned transfer back to the councils when the contract ends in 2025. Resulting in very high costs with no delivery vehicle to manage the services.

2.1.3 Outsourcing as an option transfers risk to the commercial entity and provides the ability to quickly scale services according to demand. However this option was discounted due to the lack of suppliers in the market and a potentially complex and lengthy procurement process. Research identified only one viable option, Liberata, which would have led to an increase in operating costs compared to the Civica contract.

The two remaining options were shortlisted and appraised .

2.2 Option 1 - Shared services

Shared services is where a number of councils can join their services together leading to streamlined processes and economies of scale.

Benefits

- Tried and tested model for delivering efficiencies and sharing limited resources
- Greater control for the council compared to outsourced services
- Benefit from economies of scale
- Centralisation of services makes it easier to monitor performance, standardisation of processes and methodologies
- Reduced infrastructure costs by sharing technology and data
- Not subject to corporation tax or VAT

Risks

- Increased costs due to pensions requirements of LGPS and salary costs.
- SDV is not set up to deliver additional revenue, leading to viability challenges in the future
- Decision making governance more complex and lengthy with cabinet/committee structure
- Lack of buy in from staff leading to demotivation and drop in productivity levels

Financial implications

- The original rationale for transferring EKS shared services to Civica was to maintain the shared services function for the 3 council partnership. Otherwise the partnership would have had to make significant savings to maintain the quality of services being provided to customers and approximately 67 posts would have been at risk. Funding would have needed to increase by approximately £400,000 in 2018/19 to maintain services, equating to 2.8 million over seven years.The outsourcing to a commercial operation generated savings, maintained the quality of services and provided further process efficiencies due to streamlining throughout the contract.

- A shared service SDV incurs an increased pension liability than all the other options, with LGPS employee contributions in the range of 20% compared to approximately 5% contributions for commercial organisations.
- The shared services model is expected to incur additional costs in the first two years.
- As an estimate a productivity loss of 2% has been incorporated into the business case, this is based on a minimal drop in productivity.

2.3 Option 2- LATCo

A LATCo is a local authority trading company that can operate in the commercial environment as well delivering traditional council services

Benefits

- Greater control for the council when compared with an outsourced SDV
- Ability to trade commercially and generate new revenue streams such as EPA assessments services to support council services
- Strong buy in from staff will enable delivery of current productivity levels
- Ability to react and adapt quickly to the changing financial environment, leading to innovation and agility
- Opportunity for cost reductions with more commercial terms and conditions e.g procurement of new IT systems
- The ability to set own pension rates to enable an improved offer of higher salaries
- Operational agility with streamlined decision making
- A LATCo can promote social value, e.g increase take up of welfare benefits

Risks

- Subject to VAT implications and corporation tax
- More complex to set up structure of company and legal advice required
- Possible implications for the authority with an existing LATCo

Financial implications

- The financial analysis indicates a surplus being generated from year 1 with an additional saving to each of the three councils, as a consequence of moving to a LATCo SDV. Detailed costs have been outlined in appendix 4 of the business case.
- Further discounts or dividends can be paid to each council as part of the commercial trading model. Income from new revenue streams has been incorporated into the business case.
- There are currently 26 staff employed by Civica that are not on the LGPS. Given the differential between the current Civica pension contribution rate of 5% and LGPS contribution rates, 20% it would be reasonable to assume that a LATCo would provide recurring annual savings of approximately £120,000 compared to an in-house shared service. Through the passage of time, this saving should increase through natural turnover in staffing with more employees moving on to a LATCo pension scheme.

3. Conclusion

With the added ability to generate new revenue income streams, flexibility to attract and retain high calibre staff, due to enhanced terms and conditions, the LATCo is the preferred choice of service delivery vehicle. With an uncertain and challenging financial environment the LATCo is more able to weather the uncertainty by generating additional income streams to support frontline services. The ability of a LATCo to minimise costs and maximise efficiencies and deliver innovative services to communities and residents is a significant factor to support the LATCo approach.

The shared services are already operating in a streamlined efficient manner making it difficult to find further ways of identifying additional financial savings if needed. The shared services model will also incur additional costs year 1 and 2.

The LATCo will deliver savings to each council along with a streamlined budgeting and operating cost process, moving away from the more complex current recharge model.Whilst the level of current surplus on the arrangement is commercially sensitive, we are assured that the level of profit is sufficient to absorb the proposed level of additional costs and still deliver a surplus. This indicative budget will therefore be subject to further due diligence once the business case is agreed and the CCN is signed.

The Civica contract has transformed the way the services are delivered enabling commercialisation and delivering cost effective and efficient services. The LATCo service delivery vehicle is the only SDV that closely resembles the successful commercial model that Civica has developed.

The commercial approach of the Civica contract has delivered an agile and flexible workforce with new ways of working. The LATCo SDV is well suited to continue to deliver services which are commercially focused and foster an innovative commercial culture.

4. Recommendation

East Kent Services Committee is asked to approve the exit from the Civica contract.

East Kent Services Committee is asked to approve the business case and the preferred

LATCo service delivery vehicle and for the individual councils to recommend the approach to its executive leadership and cabinet.

The Civica contract expires in January 2025 , requiring a decision to be made to select one of the options outlined above. Doing nothing puts major services at risk of non delivery and significant additional cost being incurred. A delivery timescale including stabilisation of 7 - 9 months is required at the very least to ensure an effective transition to a new service delivery vehicle.

5. Corporate plans

The business case is aligned to the corporate values and priorities of the three councils. The councils require services to continue to be provided efficiently, effectively and economically to reduce reliance on council tax and government funding, this supports the business case.The developing corporate plans show a desire to foster a commercial culture and focus for services, work more smartly, effectively and efficiently.

6. Consultation planned or undertaken

Consultation will take place with the East Kent services committee, individual cabinets and overview and scrutiny panel.

7. Implications

(a) Financial

The financial analysis indicates a surplus being generated from year 1 onwards with an additional saving to each of the three councils, as a consequence of moving to a LATCo SDV. Detailed costs have been outlined in appendix 4 of the business case..

(b) Legal

There are several legal implications associated with this recommendation. An intent to exit the Civica contract requires legal advice and action. New contracts required between the separate parties will require formulation. Novation of IT contracts and pensions considerations need to be considered.

(c) Equalities

None identified

(d) Environmental including carbon emissions and biodiversity

None identified

(e) Staffing resource

Tupe implications and associated regulatory consultation will have to be considered for staff transitioning to a LATCo.

Contact Officer: Jasvir Chohan interim service transition manager

Background documents and appendices

EKS transition business case

Additional document(s) containing information exempt from publication:

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